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UNCLAS MANILA 002266

EEB/TPP/ABT/ATP JANET SPECK

SENSITIVE

SIPDIS

STATE FOR EAP/MTS  
EEB/TPP/ABT/ATP FOR JANET SPECK

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TAGS: [EAGR](#) [EAID](#) [ETRD](#) [ECON](#) [PGOV](#) [PREL](#) [RP](#)  
SUBJECT: UPDATE ON THE PHILIPPINE RICE SITUATION

REF: A) MANILA 00838; C) USDA FAS GAIN RP8047/RP8054

¶1. (SBU) Summary: Increasing fertilizer costs, lack of farm credit, and typhoons will result in a decline in Philippine rice production in market year July 2008 through June 2009 (MY08/09). Although we expect rice imports to soar and reach a new record-level, ending stocks are likely to fall from the June 2008 level. Philippine paddy rice prices have fallen on the entry of significant volumes of rice imports. Since farmers and rice millers are expected to experience losses as a result of the low paddy prices, production will likely decline for the remainder of the market year. End summary.

¶2. (SBU) Recent severe typhoons and soaring fertilizer costs are expected to result in a decline in area harvested and significantly lower yields during the coming market year. Fertilizers are now sold from \$40 to \$44.44 for a 50-kilogram bag, more than double from a year ago. Despite the Philippine government's announced fertilizer discounts and other subsidies, distribution concerns remain, manifested by sporadic farmer protests against increasing fertilizer prices.

¶3. (SBU) The aggressive Philippine anti-hoarding campaign during the rice crisis in May this year may have backfired. Anti-hoarding teams reportedly conducted raids on commercial warehouses owned by rice traders and millers, who are the traditional and dominant source of farm credit as well as the main buyers of paddy rice (the National Food Authority or NFA normally buys only about one percent of overall paddy production). As a result, millers cut buying operations for fear of suspicion of hoarding, warehouse inspections, and harassment. The millers have also hesitated to extend more credit to farmers.

¶4. (SBU) Philippine rice millers complain of losses from the decline in paddy rice prices which resulted from the significant inflow of rice imports sold at subsidized prices. Paddy rice prices have reportedly dropped to \$0.21 per kilo even as production costs have risen to \$0.35 per kilo.

¶5. (SBU) The National Food Authority continues to sell milled rice at \$0.40 per kilo to indigent families, and \$0.55-0.77 per kilo to the better off sectors. Commercial milled rice, on the other hand, is currently selling at \$0.77-0.88 per kilo. The NFA has announced it will purchase one million metric tons (about 10% of paddy production) out of the roughly 10 million metric ton expected harvest in the second half of 2008.

¶6. (SBU) According to the Philippine Confederation of Rice Millers, the retail cost of milled rice is usually about double the purchase price of paddy rice. Rice millers who bought paddy rice at a high price, are holding on to these stocks waiting for prices to improve. However, with the main Philippine rice crop now coming in, prices

will remain low. Philippine rice millers predict a rice glut and an oversupply of rice that will become worse with the arrival of 500,000 metric tons of rice contracted for import later this year. This oversupply scenario will peak in early 2009. Farmers and local rice millers will likely incur losses due to the low prices, and production will likely decline for the remainder of 2009 as production costs are likely to remain high.

Kenney